

# Los Angeles Times

## California Needs a Rainy Day

January 22, 2008

In 2002, I was running for reelection, and the country had fallen into a deep recession. I met a woman who blamed me for the loss of her husband's job. When I inquired what state agency he worked for, she replied that he worked for General Motors. Understandably, she was hurting.

I learned a valuable lesson that day: In good times, governors get more credit than they deserve, and in bad times, they get more blame.

After my reelection, the recession worsened, and blame and I became even more intimately acquainted. Some criticism was valid, but in other cases, it seemed like a real stretch. Before the 2003 recall, I remember seeing an editorial cartoon picturing two women wading into the ocean. One complained, "The water is really cold." Her friend replied, "And that's another thing I blame on Gray Davis."

So why is California suddenly faced with a \$14-billion budget shortfall? Is it because the governor (or the Legislature) did something terribly wrong?

No, the governor of a nation-size state like California can affect the economy, but only on its margins. The reason this deficit is looming is because no one can repeal the business cycle. Just as night follows day, expansionary times will be followed by recessionary times. And yet the overwhelming impulse in Sacramento is to spend every dollar on the table. If a booming economy has the state coffers flush, Democrats say: "There will never be a better time to expand programs than right now." Republicans counter: "We have too much money. Let's reduce taxes."

Passage of a budget requires a two-thirds vote in both houses of the Legislature. So the Democrats and the Republicans haggle with the governor until an agreement is reached on some combination of additional spending and tax relief, and every new dollar is disposed of. The rub comes when the economy contracts and those dollars don't reappear in Sacramento the next year.

Believe me, Gov. Arnold Schwarzenegger doesn't want to close 48 parks, reduce education funding or release prisoners. Like all governors, however, he is required to bring expenditures in line with revenues. I don't agree with all of his suggested cuts, nor do I endorse all of the critical responses from the Legislature.

There is a significant reform suggested by the governor, however, that I fully endorse. It is a constitutional amendment that would require putting aside a portion of surging revenues in good times as a buffer against painful cuts in bad times. I called for such a "rainy day" fund while in

office -- and recently former Gov. Pete Wilson also spoke in favor of this idea.

If the Legislature fails to support this amendment, I would suggest that the governor gather the signatures needed to put his Budget Stabilization Act on the ballot. This structural change would benefit Californians for generations to come. Without it, governors yet to be born will be struggling with the feast-or-famine budgeting that confronted Schwarzenegger and myself.

Finally, we all share some blame for difficulties the governor and the Legislature are facing. We voted for Proposition 98, which required that at least 40% of the general fund go to education every year. We voted for Proposition 42, preventing the Legislature from dipping into transportation funds to pay for general fund expenditures, and we voted for Proposition 1A, which precluded the Legislature from reducing its allocation to cities and counties to balance the budget.

We voted for the Gann limit in 1979 and again in 1990 -- a law that requires automatic rebates to taxpayers when revenues swell over a historical limit. In the fall of 2001, as state revenues were noticeably softening, the Gann limit triggered a return of \$1 billion in tax dollars.

Standing alone, each of these proposals had merit, but their cumulative effect has been to limit the flexibility of the governor and Legislature in dealing with the current shortfall.

This year, the governor and Legislature have more to hash out than a simple budget -- they have to fix the broken system.